

ORIGINAL

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MEMORANDUM  
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TO: THE COMMISSION

FROM: Utilities Division

DATE: February 18, 2009

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AZ CORP COMMISSION  
DOCKET CONTROL

Arizona Corporation Commission

DOCKETED

FEB 18 2009

DOCKETED BY

RE: IN THE MATTER OF THE APPLICATION OF ARIZONA WATER COMPANY,  
AN ARIZONA CORPORATION, FOR AUTHORITY TO IMPLEMENT ITS  
ARSENIC COST RECOVERY MECHANISM STEP TWO FOR ITS SEDONA  
WATER DISTRICT (DOCKET NO. W-01445A-00-0962)

**I. Introduction**

Pursuant to Decision Nos. 64282 and 66400, Arizona Water Company ("Company", "Applicant" or "AWC") filed an application on August 12, 2008, with the Arizona Corporation Commission ("Commission") requesting authorization to implement Step-Two of the Arsenic Cost Recovery Mechanism ("ACRM") for its Sedona Water District.

The Commission established the ACRM to aid the Company in its efforts to comply with the United States Environmental Protection Agency's ("EPA") new arsenic maximum contaminant level of 10 particles per billion ("ppb") which went into effect on January 23, 2006. The EPA reduced the drinking water standard for arsenic from 50 ppb to 10 ppb. The ACRM aid is effectuated through collection of a monthly arsenic surcharge that includes both fixed and volumetric charges.

Pursuant to Decision No. 66400, AWC's Step-Two ACRM filing includes the schedules the Commission requires as a condition for approval to implement an ACRM.

**II. Background**

On November 22, 2000, AWC filed an application with the Commission for a permanent rate increase for AWC's Northern Group serving approximately 16,000 customers in five separate water districts including the Sedona water district. Decision No. 64282, issued on December 28, 2001, established permanent rate increases for all five districts. In that decision, the Commission affirmed the need for Staff, the Company, and the Residential Utility Consumer Office ("RUCO") to address an appropriate methodology for the recovery of costs associated with arsenic treatment (i.e., Phase II). The culmination of these negotiations, testimony, and public hearings resulted in the issuance of Decision No. 66400 on October 14, 2003.

On May 17, 2007, AWC filed an application with the Commission requesting authorization to implement Step-One of the ACRM for its Sedona Water District. On August 28,

2007, the Commission issued Decision No. 69883 granting AWC the authority to implement Step-One of its ACRM.

The Step-One surcharge added \$0.81 to the monthly customer charge for a customer with a 5/8-inch meter and \$0.0747 per thousand gallons to the commodity rate. The average residential customer bill (with usage of 10,300 gallons on a 5/8-inch meter) increased by approximately \$1.58 (or 4.8 percent) from \$32.90 to \$34.48.

### **III. Company's Current Application**

AWC's Step-Two ACRM application seeks to recover eligible arsenic related O&M costs, depreciation expense, lease expense, income taxes and updated values of arsenic related net plant. The Company's present application proposes to replace the Step-One ACRM surcharge (\$0.81 monthly customer charge for 5/8-inch meter customers<sup>1</sup> and \$0.0747 per thousand gallons commodity rate) with two components, a permanent Step-Two surcharge and a temporary Step-Two ACRM surcharge. The permanent portion of the Step-Two surcharge would increase the monthly minimum customer charge for a customer with a 5/8-inch meter by \$0.79 from \$0.81 to \$1.60 and would increase the commodity rate per thousand gallons by \$0.0670 from \$0.0747 to \$0.1417. The permanent portion of the Step-Two surcharge would increase the average customer bill (with usage of 10,264 gallons on a 5/8-inch meter) over the Step-One level by \$1.48 (4.3 percent) from \$34.31 to \$35.79 and over the base rate level by \$3.05 (9.3 percent) from \$32.74 to \$35.79. The permanent Step-Two surcharge will remain in effect until rates are authorized in a future rate case.

The temporary portion of the Step-Two surcharge provides recovery of deferred O&M expenses and expires 12 months after implementation. The temporary portion of the Company's proposed Step-Two ACRM surcharge would add \$0.33 to the monthly customer charge for 5/8-inch meter customers and \$0.0294 per thousand gallons to the commodity rate. The combined permanent and temporary Step-Two ACRM surcharge would result in a \$1.93 (\$1.60 + \$0.33) monthly customer charge and a \$0.1711 (\$0.1417 + \$0.0294) commodity rate per thousand gallons. The combined permanent and temporary portions of the Step-Two surcharge would increase the average customer bill (with usage of 10,264 gallons on a 5/8-inch meter) over the Step-One level by \$2.11 (6.2 percent) from \$34.31 to \$36.422 and over the base rate level by \$3.68 (11.2 percent) from \$32.74 to \$36.42.

### **IV. Authorization for an Arsenic Cost Recovery Mechanism (Decision Nos. 66400 and 69883)**

Decision Nos. 66400 and 69883 conditioned approval of an ACRM surcharge on the Company complying with all requirements discussed in the Order including:

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<sup>1</sup> The monthly customer charge increases for larger meters.

<sup>2</sup> Schedule 10 of the Company's filing erroneously presents customer bill amounts. Schedule 10 shows that the average residential bill would increase by \$1.41 (6.5 percent) from \$21.83 to \$23.24. Staff calculated that the average residential bill would increase by \$2.11 (6.2 percent) from \$34.31 to \$36.42.

1. AWC shall file schedules to show the actual cost of construction of arsenic related facilities and that the projected rate of return with the ACRM does not exceed authorized levels. AWC shall also file any relevant data requested by Staff to support the ACRM increase.
2. In addition to the ten schedules described under "Filing Requirements Compliance", AWC shall provide any additional relevant data requested by Staff including Microsoft Excel or compatible electronic versions of the ACRM filings and all work papers.
3. AWC shall file a full rate application no later than September 30, 2007, based on a 2006 test year<sup>3</sup>
4. AWC shall identify as a separate line item on customer bills the charges attributable to federally mandated arsenic reduction costs. At least four times annually, the bills shall include in bold print or distinguishing ink color that the ACRM costs are the result of federal mandates by the United States Environmental Protection Agency.
5. AWC shall continue to monitor the availability of grants and low-cost financing sources for arsenic treatment facilities in order to mitigate the rate impact on its customers.
6. The ACRM schedules provide for the calculation of a surcharge based on financial records and an Earnings Test Schedule that limit the ACRM surcharge revenue to an amount that would not result in a rate of return exceeding that authorized in Decision No. 64282.

Decision No. 69883 granted approval of a surcharge under Step-One of the provisions of the ACRM established in Decision No. 66400, it did not place any additional conditions to those specified in Decision No. 66400 for implementation of a surcharge.

#### **V. Residential Utility Consumer Office ("RUCO") Analysis**

On December 30, 2008, RUCO filed its report on its audit of AWC's Sedona Water District Step-Two ACRM surcharge request. RUCO took no exception to the Company's filing stating that the ACRM Step-Two two surcharges should be approved as filed.

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<sup>3</sup> A Procedural Order dated December 29, 2006 subsequently revised this condition to reflect a filing date no later than September 30, 2008 and a test year of December 31, 2007. AWC filed a rate application on August 22, 2008, 2008.

## VI. Staff Analysis

### A. Filing Requirements

Decision No. 66400 requires AWC to file ten ACRM schedules as follows: balance sheet, income statement, earnings test, rate review, arsenic revenue requirement, surcharge calculation, adjusted rate base schedule, construction work in progress ledger, three-factor allocation and typical bill analysis. The Company's ACRM Step-Two filing includes the following ten schedules:

1. Balance Sheet – a balance sheet for its Sedona Water District which is the most current balance sheet at the time of the filing - December 31, 2007.
2. Income Statement – a most current income statement for its Sedona Water District - period ending December 31, 2007.
3. Earnings Test – an “Earnings Test” calculation verifying that the proposed ACRM surcharge revenue would not result in excess earnings in the Sedona Water District.
4. Rate Review – a rate review for the Sedona Water District based on the 12 months ending December 31, 2007, reflecting adjustments to comply with the requirement of Decision No. 66400 to make adjustments conforming to Decision No. 64282.
5. Arsenic Revenue Requirement Calculation – a Sedona Water District arsenic revenue requirement calculation for Step-Two.
6. Surcharge Calculation – a detailed surcharge calculation presenting the monthly minimum charges by meter size and customer class and the commodity rate per thousand gallons for all customers in the Sedona Water District.
7. Rate Base – a schedule presenting the elements of rate base at December 31, 2007, and showing the effects of the arsenic plant investment for the Sedona Water District.
8. Construction Work In Progress (“CWIP”) Ledger – a ledger showing the arsenic construction work in progress accounts for the Sedona Water District.
9. Three factor allocation schedule – a schedule showing the components of the three factor allocation attributable to each of the water districts within AWC.

10. Typical Bill Analysis – ACRM Step-Two – a separate typical bill analysis showing the effects on residential customers at the average residential usage for the Sedona Water District.

**B. Filing Requirements Compliance**

Staff performed an examination of AWC's Sedona Water District Step-Two ACRM surcharge filing for the Sedona Water District and concludes that it conforms to the requirements specified in Decision Nos. 66400 and 69883. Staff found that AWC's filing included the required schedules. The ACRM schedules, as filed, provide for the calculation of a surcharge based on financial records and an Earnings Test Schedule that limit the ACRM surcharge revenue to an amount that would not result in a rate of return on the Sedona Water District that would exceed that authorized in Decision No. 64282.

**C. Examination of Company Schedules and Utility Plant In Service**

Staff's examination of the Company's posting of amounts to the CWIP ledger showed that the postings accurately reflect the Company's records and reconcile to the supporting documentation submitted.

Staff performed a field inspection and verified that the Sedona Water District's arsenic treatment facilities related to the Step-Two ACRM surcharge request are in service and providing water that meets the new arsenic standard.

Staff's agrees with AWC's \$391,456 Step-Two ACRM surcharge revenue requirement calculation. Staff also concurs with the amount of the Company's proposed permanent and temporary surcharge rates. Staff's recommended permanent and temporary Step-Two ACRM monthly customer surcharges are presented in ACRM Schedule GTM-1 and the commodity rate surcharges are presented in ACRM Schedule GTM-2. Staff recommends that the permanent or on-going ACRM surcharge remain in effect until rates are authorized in a future rate case and that the temporary surcharge that provides recovery of deferred O&M expenses expire 12 months after implementation.

**VII. Conclusions and Recommendations**

Staff concludes that the Company has duly filed an ACRM application as required by Decision Nos. 66400 and 69883.

Staff concludes that authorization of a permanent Step-Two ACRM surcharge that supplants the Step-One ACRM surcharge and that includes the amount of the Step-One surcharge as well as the costs for net additional arsenic related plant not included in the Step-One ACRM surcharge, eligible arsenic related O&M costs, depreciation expense, lease expense and

income taxes to remain in effect until new rates are established in a future rate case is appropriate.

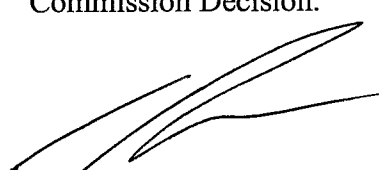
Staff further concludes that authorization of a temporary Step-Two ACRM surcharge that provides recovery of deferred O&M expenses and ceases 12 months after implementation is appropriate.

Staff further concludes that AWC has already complied with the requirement to file a permanent rate application for its Sedona Water District no later than September 30, 2008.

Staff recommends approval of a permanent Step-Two ACRM surcharge which supplants and absorbs the previously approved Step-One ACRM surcharge comprised of the monthly customer components presented in ACRM Schedule GTM-1 and the commodity rate components presented in ACRM Schedule GTM-2.

Staff further recommends that the Company file with the Commission an arsenic remedial surcharge tariff consistent with ACRM Schedules GTM-1 and GTM-2 that separately shows the permanent and temporary portions.

Staff further recommends that AWC notify its Sedona Water District customers of the arsenic cost recovery surcharge tariffs approved herein within 30 days of the effective date of the Commission Decision.

  
*for* Ernest G. Johnson  
Director  
Utilities Division

EGJ:GM:lhmm\RM

ORIGINATOR: Gary McMurry

Monthly Customer Charges - Staff  
(ACRM STEP 2)

	[A]	[B]	[C]	[D]	[E]	[F]	[G]	[H]	[I]	[J]
				[A] + [C]	([B] * \$1.60) - [C]	[B] * \$1.60	[B] + [E]	[F] + [G]	[A] + [F] + [G]	[A] + [F]
Meter Size	Base Customer Charge Decision No. 64282	Equivalent Meter Size	Step 1 Customer Charge Surcharge Decision No. 69883	Combined Base and Step 1 Customer Charge	Incremental Permanent Step 2 Customer Charge Surcharge	Permanent Step 2 Customer Charge Surcharge	Temporary Step 2 Customer Charge Surcharge	Combined Permanent and Temporary Surcharge	Combined Permanent & Temporary & Base Customer Charges	Combined Permanent and Base Customer Charges
5/8-Inch	\$ 15.70	1.0	\$ 0.81	\$ 16.51	\$ 0.79	\$ 1.60	\$ 0.33	\$ 1.93	\$ 17.63	\$ 17.30
1-Inch	\$ 33.28	2.1	\$ 1.72	\$ 35.00	\$ 1.67	\$ 3.39	\$ 0.70	\$ 4.09	\$ 37.37	\$ 36.67
2-Inch	\$ 97.18	6.2	\$ 5.01	\$ 102.19	\$ 4.89	\$ 9.90	\$ 2.04	\$ 11.95	\$ 109.13	\$ 107.08
3-Inch	\$ 174.58	11.1	\$ 9.01	\$ 183.59	\$ 8.78	\$ 17.79	\$ 3.67	\$ 21.46	\$ 195.04	\$ 192.37
4-Inch	\$ 309.92	19.7	\$ 15.99	\$ 325.91	\$ 15.59	\$ 31.58	\$ 6.51	\$ 38.10	\$ 348.02	\$ 341.50
6-Inch	\$ 591.42	37.7	\$ 30.51	\$ 621.93	\$ 29.76	\$ 60.27	\$ 12.43	\$ 72.70	\$ 664.12	\$ 651.69
8-Inch	\$ 826.92	52.7	\$ 42.66	\$ 869.58	\$ 41.61	\$ 84.27	\$ 17.38	\$ 101.65	\$ 928.57	\$ 911.19
10-Inch	\$ 1,350.51	86.0	\$ 69.68	\$ 1,420.19	\$ 67.96	\$ 137.63	\$ 28.39	\$ 166.02	\$ 1,516.53	\$ 1,488.14

Commodity Rate - Staff  
(ACRM STEP 2)

	[A]	[B]	[C]	[D]	[E]	[F]	[G]	[H]	[I]	[J]
	[A] + [B] [B] + [D] [E] + [F] [A] + [E] + [F] [A] + [E]									
	Base <sup>1</sup> Commodity Rate Dec. No. 64282	Step 1 Commodity Surcharge Dec. No. 69883	Combined Base & Step 1 Commodity Rate	Incremental Permanent Step 2 Commodity Surcharge	Permanent Step 2 Commodity Surcharge	Temporary Step 2 Commodity Surcharge	Combined Permanent & Temporary Commodity Surcharge	Combined Permanent & Temporary & Base Surcharge	Combined Permanent and Base Surcharge	Upper Limit
Meter Size										
5/8-Inch	\$ 1.6600	\$ 0.0747	\$ 1.7347	\$ 0.0670	\$ 0.1417	\$ 0.0294	\$ 0.1711	\$ 1.8311	\$ 1.8017	Infinite
1-Inch	\$ 1.6600	\$ 0.0747	\$ 1.7347	\$ 0.0670	\$ 0.1417	\$ 0.0294	\$ 0.1711	\$ 1.8311	\$ 1.8017	Infinite
2-Inch	\$ 1.6600	\$ 0.0747	\$ 1.7347	\$ 0.0670	\$ 0.1417	\$ 0.0294	\$ 0.1711	\$ 1.8311	\$ 1.8017	Infinite
3-Inch	\$ 1.6600	\$ 0.0747	\$ 1.7347	\$ 0.0670	\$ 0.1417	\$ 0.0294	\$ 0.1711	\$ 1.8311	\$ 1.8017	Infinite
4-Inch	\$ 1.6600	\$ 0.0747	\$ 1.7347	\$ 0.0670	\$ 0.1417	\$ 0.0294	\$ 0.1711	\$ 1.8311	\$ 1.8017	Infinite
6-Inch	\$ 1.6600	\$ 0.0747	\$ 1.7347	\$ 0.0670	\$ 0.1417	\$ 0.0294	\$ 0.1711	\$ 1.8311	\$ 1.8017	Infinite
8-Inch	\$ 1.6600	\$ 0.0747	\$ 1.7347	\$ 0.0670	\$ 0.1417	\$ 0.0294	\$ 0.1711	\$ 1.8311	\$ 1.8017	Infinite
10-Inch	\$ 1.6600	\$ 0.0747	\$ 1.7347	\$ 0.0670	\$ 0.1417	\$ 0.0294	\$ 0.1711	\$ 1.8311	\$ 1.8017	Infinite

<sup>1</sup> Excludes PPAM, currently \$0.0400 per thousand gallons (Dec. No. 69910).



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**BEFORE THE ARIZONA CORPORATION COMMISSION**

KRISTIN K. MAYES  
Chairman  
GARY PIERCE  
Commissioner  
PAUL NEWMAN  
Commissioner  
SANDRA D. KENNEDY  
Commissioner  
BOB STUMP  
Commissioner

IN THE MATTER OF ARIZONA WATER  
COMPANY, TO IMPLEMENT STEP TWO  
OF ITS ARSENIC COST RECOVERY  
MECHANISM FOR ITS SEDONA  
DISTRICT

DOCKET NO. W-01445A-00-0962  
DECISION NO. \_\_\_\_\_  
ORDER

Open Meeting  
March 3 and 4, 2009  
Phoenix, Arizona

BY THE COMMISSION:

FINDINGS OF FACT

Introduction

1. Pursuant to Decision Nos. 64282 and 66400, Arizona Water Company ("Company", "Applicant", or "AWC") filed an application on August 12, 2008, with the Arizona Corporation Commission ("Commission") requesting authorization to implement Step-Two of the Arsenic Cost Recovery Mechanism ("ACRM") for its Sedona Water District.

2. The Commission established the ACRM to aid the Company in its efforts to comply with the United States Environmental Protection Agency's ("EPA") new arsenic maximum contaminant level of 10 particles per billion ("ppb") which went into effect on January 23, 2006. The EPA reduced the drinking water standard for arsenic from 50 ppb to 10 ppb effective January 23, 2006. The ACRM aid is effectuated through collection of a monthly arsenic surcharge that includes both fixed and volumetric charges.

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3. Pursuant to Decision No. 66400, AWC's Step-Two ACRM filing includes the schedules the Commission requires as a condition for approval to implement an ACRM.

### **Background**

4. On November 22, 2000, AWC filed an application with the Commission for a permanent rate increase for AWC's Northern Group serving approximately 16,000 customers in five separate water districts including the Sedona water district. Decision No. 64282, issued on December 28, 2001, established permanent rate increases for all five districts. In that decision, the Commission affirmed the need for Staff, the Company, and the Residential Utility Consumer Office ("RUCO") to address an appropriate methodology for the recovery of costs associated with arsenic treatment (i.e., Phase II). The culmination of these negotiations, testimony, and public hearings resulted in the issuance of Decision No. 66400 on October 14, 2003.

5. On May 17, 2007, AWC filed an application with the Commission requesting authorization to implement Step-One of the ACRM for its Sedona Water District. On August 28, 2007, the Commission issued Decision No. 69883 granting AWC the authority to implement Step-One of its ACRM.

6. The Step-One surcharge added \$0.81 to the monthly customer charge for a customer with a 5/8-inch meter and \$0.0747 per thousand gallons to the commodity rate. The average residential customer bill (with usage of 10,300 gallons on a 5/8-inch meter) increased by approximately \$1.58 (or 4.8 percent) from \$32.90 to \$34.48.

### **Company's Current Application**

7. AWC's Step-Two ACRM application seeks to recover eligible arsenic related O&M costs, depreciation expense, lease expense, income taxes and net additional arsenic related plant not included in the Step-One surcharge. The Company's present application proposes to replace the Step-One ACRM surcharge (\$0.81 monthly customer charge for 5/8-inch meter customers<sup>1</sup> and \$0.0747 per thousand gallons commodity rate) with two components, a permanent Step-Two surcharge and a temporary Step-Two ACRM surcharge. The permanent portion of the

<sup>1</sup> The monthly customer charge increases for larger meters.

Step-Two surcharge would increase the monthly minimum customer charge for a customer with a 5/8-inch meter by \$0.79 from \$0.81 to \$1.60 and would increase the commodity rate per thousand gallons by \$0.0670 from \$0.0747 to \$0.1417. The permanent portion of the Step-Two surcharge would increase the average customer bill (with usage of 10,264 gallons on a 5/8-inch meter) over the Step-One level by \$1.48 (4.3 percent) from \$34.31 to \$35.79 and over the base rate level by \$3.05 (9.3 percent) from \$32.74 to \$35.79. The permanent Step-Two surcharge will remain in effect until rates are authorized in a future rate case.

8. The temporary portion of the Step-Two surcharge provides recovery of deferred O&M expenses and expires 12 months after implementation. The temporary portion of the Company's proposed Step-Two ACRM surcharge would add \$0.33 to the monthly customer charge for 5/8-inch meter customers and \$0.0294 per thousand gallons to the commodity rate. The combined permanent and temporary Step-Two ACRM surcharge would result in a \$1.93 (\$1.60 + \$0.33) monthly customer charge and a \$0.1711 (\$0.1417 + \$0.0294) commodity rate per thousand gallons. The combined permanent and temporary portions of the Step-Two surcharge would increase the average customer bill (with usage of 10,264 gallons on a 5/8-inch meter) over the Step-One level by \$2.11 (6.2 percent) from \$34.31 to \$36.42<sup>2</sup> and over the base rate level by \$3.68 (11.2 percent) from \$32.74 to \$36.42.

**Authorization for an Arsenic Cost Recovery Mechanism (Decision Nos. 66400 and 69883)**

9. Decision Nos. 66400 and 69883 conditioned approval of an ACRM surcharge on the Company complying with all requirements discussed in the Order including:

- a. AWC shall file schedules to show the actual cost of construction of arsenic related facilities and that the projected rate of return with the ACRM does not exceed authorized levels. AWC shall also file any relevant data requested by Staff to support the ACRM increase.
- b. In addition to the ten schedules described under "Filing Requirements Compliance", AWC shall provide any additional relevant data requested by Staff including Microsoft Excel or compatible electronic versions of the ACRM filings and all work papers.

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<sup>2</sup> Schedule 10 of the Company's filing erroneously presents customer bill amounts.

- 1 c. AWC shall file a full rate application no later than September 30, 2007, based on a  
2 2006 test year.<sup>3</sup>
- 3 d. AWC shall identify as a separate line item on customer bills the charges attributable to  
4 federally mandated arsenic reduction costs. At least four times annually, the bills shall  
5 include in bold print or distinguishing ink color that the ACRM costs are the result of  
6 federal mandates by the United States Environmental Protection Agency.
- 7 e. AWC shall continue to monitor the availability of grants and low-cost financing  
8 sources for arsenic treatment facilities in order to mitigate the rate impact on its  
9 customers.
- 10 f. The ACRM schedules provide for the calculation of a surcharge based on financial  
11 records and an Earnings Test Schedule that limit the ACRM surcharge revenue to an  
12 amount that would not result in a rate of return exceeding that authorized in Decision  
13 No. 64282.

14 **Authorization for a Step-One Arsenic Cost Recovery Mechanism (Decision No. 69883)**

15 10. Decision No. 69883 granted approval of a surcharge under Step-One of the  
16 provisions of the ACRM established in Decision No. 66400, it did not place any additional  
17 conditions to those specified in Decision No. 66400 for implementation of a surcharge.

18 **Residential Utility Consumer Office ("RUCO") Analysis**

19 11. On December 30, 2008, RUCO filed its report on its audit of AWC's Sedona Water  
20 District Step-Two ACRM surcharge request. RUCO took no exception to the Company's filing  
21 stating that the ACRM Step-Two two surcharges should be approved as filed.

22 **Staff Analysis**

23 **Filing Requirements**

24 12. Decision No. 66400 requires AWC to file ten ACRM schedules as follows: balance  
25 sheet, income statement, earnings test, rate review, arsenic revenue requirement, surcharge  
26 calculation, adjusted rate base schedule, construction work in progress ledger, three-factor  
27 allocation and typical bill analysis. The Company's ACRM Step-Two filing includes the  
28 following ten schedules:

<sup>3</sup> A Procedural Order dated December 29, 2006 subsequently revised this condition to reflect a filing date no later than September 30, 2008 and a test year of December 31, 2007. AWC filed a rate application on August 22, 2008, 2008.

- a. Balance Sheet – a balance sheet for its Sedona Water District which is the most current balance sheet at the time of the filing - December 31, 2007.
- b. Income Statement – a most current income statement for its Sedona Water District - period ending December 31, 2007.
- c. Earnings Test – an “Earnings Test” calculation verifying that the proposed ACRM surcharge revenue would not result in excess earnings in the Sedona Water District.
- d. Rate Review – a rate review for the Sedona Water District based on the 12 months ending December 31, 2007, reflecting adjustments to comply with the requirement of Decision No. 66400 to make adjustments conforming to Decision No. 69883.
- e. Arsenic Revenue Requirement Calculation – a Sedona Water District arsenic revenue requirement calculation for Step-Two.
- f. Surcharge Calculation – a detailed surcharge calculation presenting the monthly minimum charges by meter size and customer class and the commodity rate per thousand gallons for all customers in the Sedona Water District.
- g. Rate Base – a schedule presenting the elements of rate base at December 31, 2007 and showing the effects of the arsenic plant investment for the Sedona Water District.
- h. Construction Work In Progress (“CWIP”) Ledger – a ledger showing the arsenic construction work in progress accounts for the Sedona Water District.
- i. Three factor allocation schedule – a schedule showing the components of the four factor allocation attributable to each of the water districts within AWC.
- j. Typical Bill Analysis – ACRM Step-Two – a separate typical bill analysis showing the effects on residential customers at the average residential usage for the Sedona Water District.

#### **Staff Findings**

13. Staff found no deficiencies related to the Company’s ACRM filing.

14. Staff determined that the filed schedules provide for the calculation of a surcharge based on financial records and an Earnings Test Schedule to limit the ACRM Step-Two revenue to an amount that would not result in a rate of return exceeding the rate authorized in Decision No. 64282.

15. Staff’s examination of the Company’s posting of amounts to the CWIP ledger showed that the postings accurately reflect the Company’s records, reconcile to the invoices submitted and are mathematically correct.

1           16.     Staff performed a field inspection and verified that the Sedona Water District's  
2     arsenic treatment facilities related to the Step-Two ACRM surcharge request are in service and  
3     providing water that meets the new arsenic standard.

4           17.     AWC has already complied with the requirement to file a permanent rate  
5     application for its Sedona Water District no later than September 30, 2008.

6     **Staff's Conclusions and Recommendations**

7           18.     Staff concurs with AWC's \$391,456 Step-Two ACRM surcharge revenue  
8     requirement.

9           19.     Staff concludes that the Company has duly filed an ACRM application as required  
10    by Decision Nos. 66400 and 69883.

11          20.     Staff concludes that authorization of a permanent Step-Two ACRM surcharge that  
12    supplants the Step-One ACRM surcharge and that includes the amount of the Step-One surcharge  
13    as well as the costs for net additional arsenic related plant not included in the Step-One ACRM  
14    surcharge, eligible arsenic related O&M costs, depreciation expense, lease expense and income  
15    taxes to remain in effect until new rates are established in a future rate case is appropriate.

16          21.     Staff further concludes that authorization of a temporary Step-Two ACRM  
17    surcharge that provides recovery of deferred O&M expenses and ceases 12 months after  
18    implementation is appropriate.

19          22.     Staff further concludes that AWC has already complied with the requirement to file  
20    a permanent rate application for its Sedona Water District no later than September 30, 2008.

21          23.     Staff recommends approval of a permanent Step-Two ACRM surcharge which  
22    supplants and absorbs the previously approved Step-One ACRM surcharge comprised of the  
23    monthly customer components presented in ACRM Schedule GTM-1 and the commodity rate  
24    components presented in ACRM Schedule GTM-2.

25          24.     Staff further recommends that the Company file with the Commission an arsenic  
26    remedial surcharge tariff consistent with ACRM Schedules GTM-1 and GTM-2 that separately  
27    shows the permanent and temporary portions.

28    ...

26. The average customer bill (with usage of 10,264 gallons on a 5/8-inch meter at the ACRM Step-One level is \$34.31. The permanent portion of the Step-Two surcharge increases the bill by \$1.48 to \$35.79 and the temporary portion of the Step-Two surcharge adds \$0.63 for a \$36.42 bill until it expires in 12 months.

4. It is in the public interest to approve the Company's request for implementation of the Step-Two ACRM.

IT IS FURTHER ORDERED that upon approval of the permanent Step-Two surcharge, the Step-One surcharge amounts are absorbed into the permanent Step-Two amount and the Step-One surcharge will cease.

IT IS FURTHER ORDERED that Arizona Water Company shall file with the Commission's Docket Control, as a compliance matter to this docket, an arsenic remedial surcharge tariff consistent with ACRM Schedules GTM-1 and GTM-2 that separately shows the permanent and temporary portions within 30 days of the effective date of this Decision.

IT IS FURTHER ORDERED that the recovery of deferred O&M expenses will cease after the 12-month recovery period.

IT IS FURTHER ORDERED that Arizona Water Company shall notify its Sedona Water District customers of the arsenic cost recovery surcharge tariff approved herein within 30 days of the effective date of this Decision.

IT IS FURTHER ORDERED that this Decision shall become effective immediately.

**BY THE ORDER OF THE ARIZONA CORPORATION COMMISSION**

CHAIRMAN

COMMISSIONER

COMMISSIONER

COMMISSIONER

COMMISSIONER

IN WITNESS WHEREOF, I, MICHAEL P. KEARNS, Interim Executive Director of the Arizona Corporation Commission, have hereunto, set my hand and caused the official seal of this Commission to be affixed at the Capitol, in the City of Phoenix, this \_\_\_\_\_ day of \_\_\_\_\_, 2009.

MICHAEL P. KEARNS  
INTERIM EXECUTIVE DIRECTOR

DISSENT: \_\_\_\_\_

DISSENT: \_\_\_\_\_

EGJ:GM:lh\RM

Decision No. \_\_\_\_\_



1 SERVICE LIST FOR: Arizona Water Company  
2 DOCKET NO. W-01445A-00-0962

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23 4230 North Drinkwater Boulevard, Floor 4  
24 Scottsdale, Arizona 85251

23 Mr. Ernest G. Johnson  
24 Director, Utilities Division  
25 Arizona Corporation Commission  
26 1200 West Washington Street  
27 Phoenix, Arizona 85007

ACRM Schedule GTM-1

ARIZONA WATER COMPANY  
DOCKET NO. W-01445A-00-0962  
Sedona Water System

Monthly Customer Charges - Staff  
(ACRM STEP 2)

[A]	[B]	[C]	[D]	[E]	[F]	[G]	[H]	[I]	[J]
			[A] + [C]	([B] * \$1.60) - [C]	[B] * \$1.60	[B] + [E]	[F] + [G]	[A] + [F] + [G]	[A] + [F]
Base Customer Charge Decision No. 64282	Equivalent Meter Size	Step 1 Customer Charge Surcharge Decision No. 69883	Combined Base and Step 1 Customer Charge	Incremental Permanent Step 2 Customer Charge Surcharge	Permanent Step 2 Customer Charge Surcharge	Temporary Step 2 Customer Charge Surcharge	Combined Permanent and Temporary Surcharge	Combined Permanent & Temporary & Base Customer Charges	Combined Permanent and Base Customer Charges
\$ 15.70	1.0	\$ 0.81	\$ 16.51	\$ 0.79	\$ 1.60	\$ 0.33	\$ 1.93	\$ 17.63	\$ 17.30
\$ 33.28	2.1	\$ 1.72	\$ 35.00	\$ 1.67	\$ 3.39	\$ 0.70	\$ 4.09	\$ 37.37	\$ 36.67
\$ 97.18	6.2	\$ 5.01	\$ 102.19	\$ 4.89	\$ 9.90	\$ 2.04	\$ 11.95	\$ 109.13	\$ 107.08
\$ 174.58	11.1	\$ 9.01	\$ 183.59	\$ 8.78	\$ 17.79	\$ 3.67	\$ 21.46	\$ 196.04	\$ 192.37
\$ 309.92	19.7	\$ 15.99	\$ 325.91	\$ 15.59	\$ 31.58	\$ 6.51	\$ 38.10	\$ 348.02	\$ 341.50
\$ 591.42	37.7	\$ 30.51	\$ 621.93	\$ 29.76	\$ 60.27	\$ 12.43	\$ 72.70	\$ 664.12	\$ 651.69
\$ 826.92	52.7	\$ 42.66	\$ 869.58	\$ 41.61	\$ 84.27	\$ 17.38	\$ 101.65	\$ 928.57	\$ 911.19
\$ 1,350.51	86.0	\$ 69.68	\$ 1,420.19	\$ 67.96	\$ 137.63	\$ 28.39	\$ 166.02	\$ 1,516.53	\$ 1,488.14

Meter Size

5/8-Inch  
1-Inch  
2-Inch  
3-Inch  
4-Inch  
6-Inch  
8-Inch  
10-Inch  
12-Inch

Decision No. \_\_\_\_\_

[illegible]

Meter Size	Base <sup>1</sup> Commodity Rate	Step 1 Commodity Surcharge	Combined Base & Step 1 Commodity Rate	Incremental Permanent Step 2 Commodity Surcharge	Permanent Step 2 Commodity Surcharge	Temporary Step 2 Commodity Surcharge	Combined Permanent & Temporary Commodity Surcharge	Combined Permanent & Temporary & Base Surcharge	Combined Permanent and Base Surcharge	Upper Limit
	Dec. No. 64282	Dec. No. 69883								
5/8-Inch	\$ 1.6600	\$ 0.0747	\$ 1.7347	\$ 0.0670	\$ 0.1417	\$ 0.0294	\$ 0.1711	\$ 1.8311	\$ 1.8017	Infinite
1-Inch	\$ 1.6600	\$ 0.0747	\$ 1.7347	\$ 0.0670	\$ 0.1417	\$ 0.0294	\$ 0.1711	\$ 1.8311	\$ 1.8017	Infinite
2-Inch	\$ 1.6600	\$ 0.0747	\$ 1.7347	\$ 0.0670	\$ 0.1417	\$ 0.0294	\$ 0.1711	\$ 1.8311	\$ 1.8017	Infinite
3-Inch	\$ 1.6600	\$ 0.0747	\$ 1.7347	\$ 0.0670	\$ 0.1417	\$ 0.0294	\$ 0.1711	\$ 1.8311	\$ 1.8017	Infinite
4-Inch	\$ 1.6600	\$ 0.0747	\$ 1.7347	\$ 0.0670	\$ 0.1417	\$ 0.0294	\$ 0.1711	\$ 1.8311	\$ 1.8017	Infinite
6-Inch	\$ 1.6600	\$ 0.0747	\$ 1.7347	\$ 0.0670	\$ 0.1417	\$ 0.0294	\$ 0.1711	\$ 1.8311	\$ 1.8017	Infinite
8-Inch	\$ 1.6600	\$ 0.0747	\$ 1.7347	\$ 0.0670	\$ 0.1417	\$ 0.0294	\$ 0.1711	\$ 1.8311	\$ 1.8017	Infinite
10-Inch	\$ 1.6600	\$ 0.0747	\$ 1.7347	\$ 0.0670	\$ 0.1417	\$ 0.0294	\$ 0.1711	\$ 1.8311	\$ 1.8017	Infinite

<sup>1</sup> Excludes PPAM, currently \$0.0400 per thousand gallons (Dec. No. 69910).